

CALIFORNIA TRANSPORTATION COMMISSION



2004 ANNUAL REPORT TO THE CALIFORNIA LEGISLATURE

Adopted

December 9, 2004



A Message from the Chair

Dear Members of the Legislature:

I am pleased to submit to you the California Transportation Commission's annual report to the Legislature for 2004. State law mandates that the Commission report to you each year identifying timely and relevant transportation issues facing the state and summarizing the Commission's major policy decisions in the past year. The law also mandates that our report summarize the impact of loans from transportation funds to the General Fund.

This year, we must report to you that the state transportation program stands at a crossroads. Our highways are growing ever more congested and our aging road and transit system infrastructure is deteriorating. While our needs for transportation infrastructure expansion and repair are expanding geometrically, we have been reducing our investment to meet these transportation needs dramatically.

This failure to invest in transportation is jeopardizing the future of California's economy, reducing the mobility of both people and goods. It is reducing productivity, increasing user costs, increasing system operating and maintenance costs, and leading to the loss of jobs. In this year alone, the construction work being held back for lack of funding will mean the loss of well over 50,000 jobs.

An effective transportation program requires stable and reliable resources because it usually takes several years of planning, design, and right-of-way work to make a transportation project ready for construction. Until just five years ago, we had a stable program, funded primarily from user fees that were protected by the California Constitution. Today, however, we have a highly unstable program, built primarily on the promise of motor fuel sales tax revenues—revenues that have been held back for each of the last four years to meet General Fund needs. This reliance on funds that may be (and consistently have been) suddenly withdrawn has brought the state transportation program to a breaking point.

We cannot continue to base our planning and project development on resources that never materialize. The viability of the entire program is at stake. This year, the Commission will be adopting the fund estimate for the 2006 State Transportation Improvement Program (STIP), which will plan resource investments through 2010-11. Over \$3.6 billion, most of the funding for the STIP, now hinges on the decisions to be made by the Governor and Legislature on the Proposition 42 transfer for 2005-06 and on guarantees for future transportation funding. Without this funding, the Commission will be faced with the prospect of deleting many, perhaps most, projects from the current program.

California's voters have spoken on the importance of funding transportation. In March 2002, Proposition 42 was approved by more than 69% of the voters. In November 2004, voters in seven counties approved local sales tax measures for transportation, each by more than the required $\frac{2}{3}$ vote.

The Commission looks forward to working with you and the Administration on reconciling the need for dedicated and reliable transportation funding with the need to resolve the State's ongoing structural budget deficit.

Sincerely,

Bob Balgenorth, Chair
California Transportation Commission



ISSUES FOR 2005

Trends and Outlook for State Transportation Financing

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California's transportation program is in crisis and on the verge of collapse. Where the state once had a transportation program funded almost exclusively from user fees protected by the California Constitution (gasoline taxes and weight fees), we now have a program dependent primarily on motor fuel sales taxes, without constitutional protection. For each of the last 4 years, transportation funds have been taken to close the General Fund deficit. For the last 2 years, the California Transportation Commission has been forced to stop making new allocations to projects from all three of the major components of the state transportation program, the State Transportation Improvement Program (STIP), the State Highway Operation and Protection Program (SHOPP), and the Traffic Congestion Relief Program (TCRP). Cities and counties have not been receiving the state subventions committed to them in statute for local road rehabilitation and repair and state transit assistance.

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In all, these programs account for about \$2.6 billion in state and local transportation projects that should be ready to go to construction this year but will not for lack of funding. Reduced spending on pre-construction work means the delay of billions more in future years. This represents a loss to California's economy in terms of reduced productivity, increased congestion, increased user costs, and increased system operating and maintenance costs. Applying standard economic multipliers, the work not going to construction this year alone will result in the loss of well over 50,000 jobs.

Some projects in the STIP and the TCRP have been kept on schedule by means of borrowing, either through the advancement of funds by local agencies in return for the promise of later repayment or through the Commission's issuance of bonds against future federal transportation fund apportionments. The capacity for such borrowing, however, is reaching its limit as current transportation funding is cut off and future funding is placed in greater doubt. Meanwhile, the backlog of pavement and other rehabilitation needs on the State highway system is growing, and the cost to meet those needs is increasing as more and more work is deferred.